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**Manpower and Organization**

**OUTSOURCING AND PRIVATIZATION**

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The Air Force Outsourcing and Privatization (O&P) Program establishes policy and guidance for institutionalizing the Air Force's optimum use of private and public resources to meet its mission requirements.

**1.** To support national security objectives in the most efficient and cost-effective way, the Air Force must concentrate its resource investments and management focus in areas most directly related to accomplishing its core missions. For the Air Force to focus primarily on core missions, it must effectively select internal and external sources of mission capability and reengineer its organization and processes. Overall, it must build an optimum support relationship with the private sector and other public agencies that leverages world-class capabilities.

1.1. The Air Force O&P Program is based on a comprehensive approach to the optimum use of both public and private sector resources. The Air Force approach permits a cross-functional and long-term process to pursue the goals of O&P.

1.2. The four principal goals of O&P are to sustain readiness, improve performance and quality by doing business more efficiently and cost-effectively, generate funds for force modernization, and focus personnel and resources on core Air Force missions.

1.3. In the execution of O&P policy:

1.3.1. The Air Force will identify sources for its support needs in light of the particular mission requirements and the goals of O&P policy.

1.3.2. The Air Force will comply with all applicable laws, regulations, policies, or official guidelines. The Air Force will not outsource or privatize inherently governmental, military-essential, or legislatively exempt activities.

1.3.3. Outside the United States, the Air Force will abide by international treaties and country-to-country agreements, and comply with applicable host nation laws, labor agreements or both.

1.4. HQ USAF/XPM will direct a revalidation of inherently governmental and military-essential functions as part of O&P. A more critical look at these functions via strategic sourcing analyses may result in the reengineering of processes and increased opportunities for the private sector to compete.

## 2. Overarching responsibilities and authorities:

2.1. All Assistant Secretaries of the Air Force, HQ USAF Deputy Chiefs of Staff, and the Director of Communications and Information (AFCIC) are responsible for identification of candidates, developing a strategy to cost compare candidates for their areas of responsibility (people, processes, etc.), and development of standard performance work statements for those candidates. In addition, they are responsible for any Privatization initiatives in their functional areas.

2.2. The Deputy Chief of Staff for Plans and Programs (HQ USAF/XP) has overall responsibility for O&P. As the office of primary responsibility (OPR), HQ USAF/XP is responsible for the development, coordination, and execution of policies and procedural guidance that relate to strategic sourcing, with policy decisions and oversight provided by the Air Force Corporate Structure. HQ USAF/XP is also responsible for implementation of OMB Circular A-76, Performance of Commercial Activities, in the Air Force as contained in AFI 38-203, *Commercial Activities Program*, and AFP 26-12, *Air Force Manpower and Organization: Guidelines for Implementing the Air Force Commercial Activities Program* (to be replaced by AFMAN 38-209).

2.3. HQ USAF command structure and functional OPRs provide guidance to accomplish unit missions consistent with the optimum use of both the public and private sectors as set out in Air Force O&P policies and guidance.

2.4. The Assistant Secretary of the Air Force (Acquisition) (SAF/AQ) is responsible for all acquisition matters regarding O&P policy.

2.5. The Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment) (SAF/MI) is responsible for O&P policy concerning personnel and facilities issues.

2.6. The Assistant Secretary of the Air Force for Financial Management and Comptroller (SAF/FM) is responsible for economic and financial analysis regarding O&P policy.

2.7. The Director of the Office of Small and Disadvantaged Business Utilization (SAF/SB) is responsible for small and disadvantaged business matters pertaining to O&P policy.

2.8. The Deputy Chief of Staff for Installations and Logistics (HQ USAF/IL) has a leading role in the identification and development of privatization opportunities and the integration of depot privatization policy with overall O&P policy.

2.9. The Deputy Chief of Staff for Personnel (HQ USAF/DP) is responsible for the development, coordination, and execution of personnel policy and procedural guidance on military and civilian personnel management issues related to O&P policy.

2.10. The Air Force Center for Quality and Management Innovation (AFCQMI) will facilitate O&P with a focus on better defining the resource needs for tomorrow's Air Force.

2.11. Major commands (MAJCOM) and field commands are responsible for accomplishing O&P consistent with Air Force O&P policies, this policy directive, and other related guidance.

2.12. Commanders and managers at all levels are responsible for identifying O&P candidates and for the timely and quality completion of their initiatives.

3. See **Attachment 1** for measures of effectiveness.
4. See **Attachment 2** for abbreviations, acronyms, and terms used in this policy.
5. See **Attachment 3** for implementing and interfacing publications.
6. See **Attachment 4** for the Air Force Outsourcing and Privatization Strategic Plan.

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## Attachment 1

### MEASURING AND DISPLAYING COMPLIANCE WITH POLICY

**A1.1.** Measuring the effectiveness of the overall Outsourcing and Privatization (O&P) Program requires the development of a set of metrics that support the goals of the program. These goals are as follows:

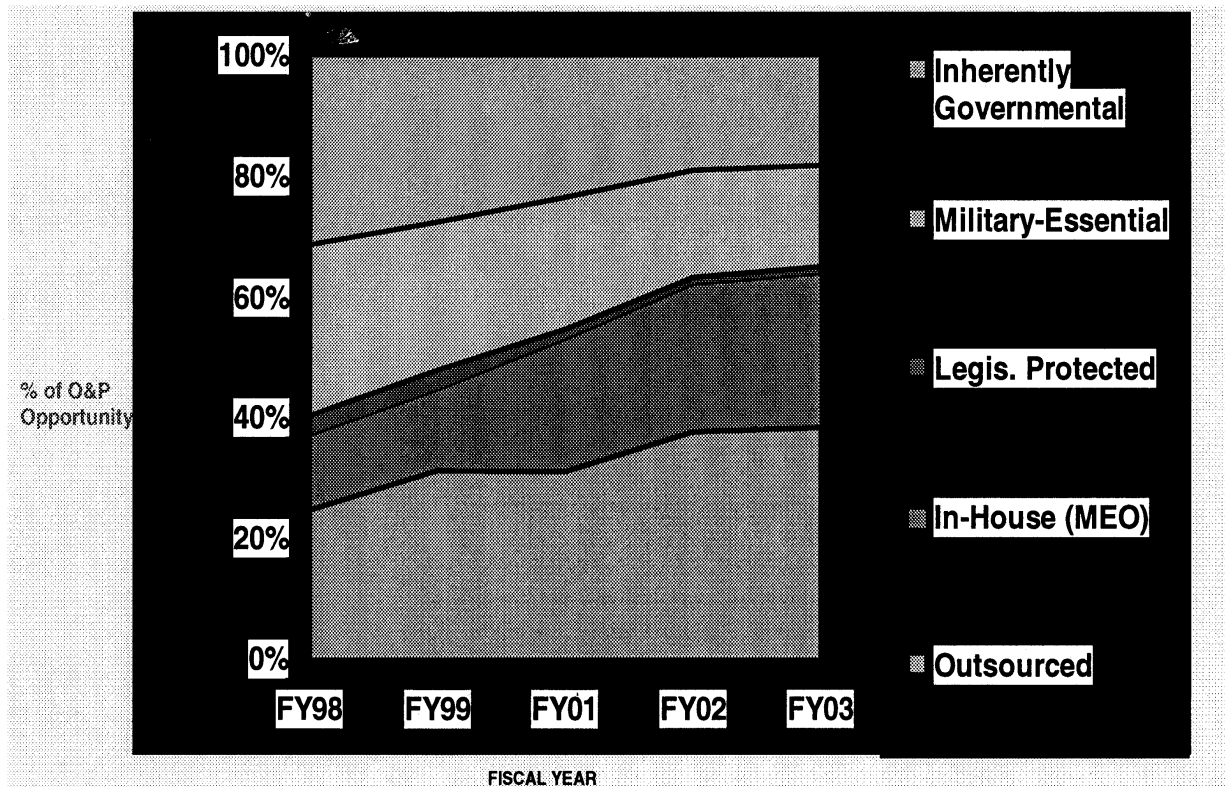
- Sustain mission readiness
- Improve the performance, quality, and efficiency of Air Force functions
- Generate funds for modernization
- Focus personnel and resources on core Air Force mission

A1.1.1. Metrics are measurements that are compared to a goal or plan to determine progress, success, or failure in achieving the goal or plan.

**A1.2.** A fundamental assumption of Air Force O&P policy is that there will be an increase in the percentage of Air Force activities studied or competed based on performance and costs. As a result of these studies, other public sector sources (internal and external to the Air Force) and private sector entities are expected to play an increasing role in support of the Air Force (see **Figure A1.1.** for a format illustrating the percentage change of the projected workforce with O&P potential). **Figure A1.2.** depicts this in numbers (notional). To accelerate the identification of O&P candidates, the MAJCOMs and HQ USAF Functionals will review 100 per cent of Air Force activities by the year 2003 to determine whether activities should be retained in house, competed for outsourcing, outsourced directly, privatized, transferred to the Air National Guard or Air Force Reserve, or reengineered. (See **Figure A1.3.** for the metric to track progress in these reviews.)

**A1.3.** SAF/FM will track aggregate Air Force funds saved and reprogrammed for modernization as a result of O&P initiatives and provide updates to HQ USAF/XPM and the Air Force Center for Quality & Management Innovation (AFCQMI) as required. The metric to track funds reprogrammed for modernization will be a comparison of projected cost savings toward a pre-determined savings goal versus the actual savings after functions are either competed, reengineered, privatized, or otherwise properly sourced. This goal will be in the form of a positive dollar trend (see **Figure A1.4.**). Savings must be distinguishable from cost avoidance and measured by functionals at Air Force and MAJCOM levels. Although not captured in this metric, HQ USAF/IL, in conjunction with SAF/FM, will develop a cost-avoidance metric linked to the privatization of infrastructure.

**Figure A1.1. Outsourcing and Privatization Projected Workforce With O&P Potential by Percent.**



**Figure A1.2. Outsourcing and Privatization Projected Workforce in Numbers.**

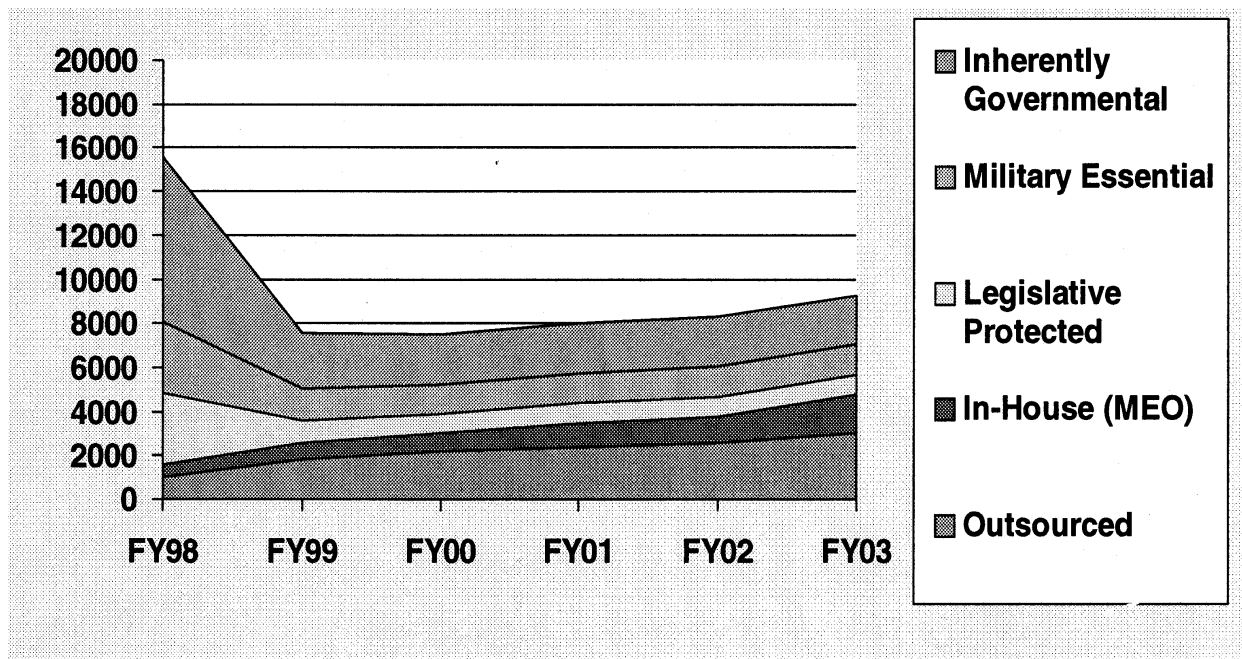


Figure A1.3. Outsourcing and Privatization Program (Activities Reviewed (%)).

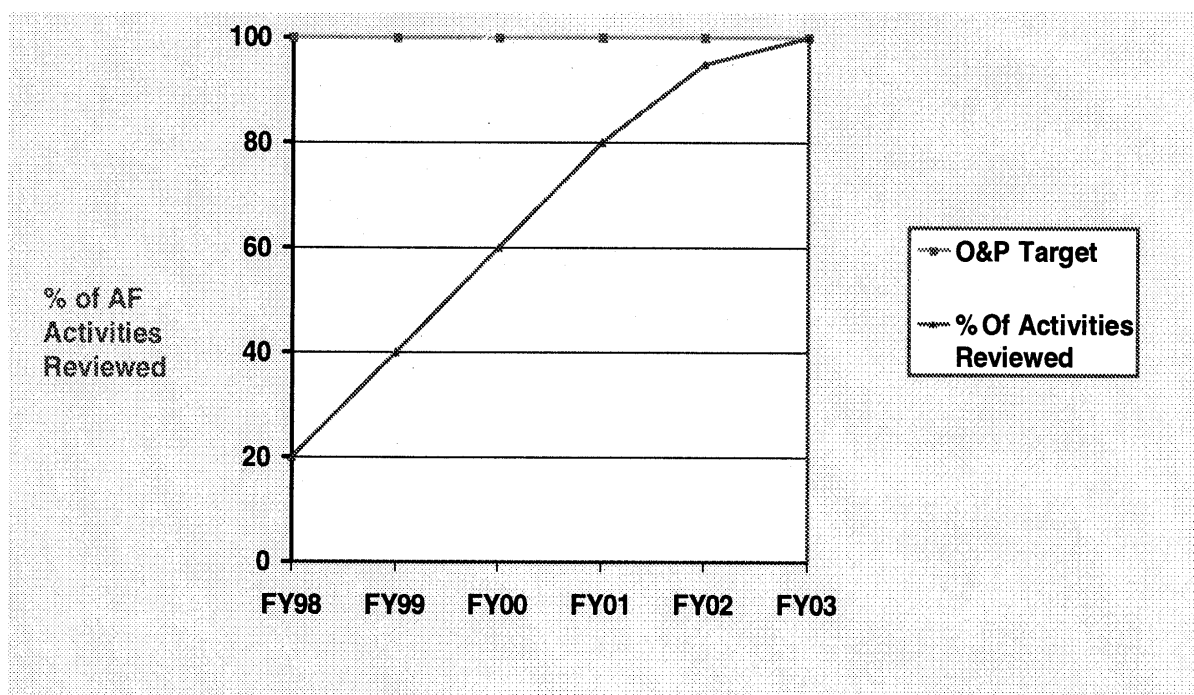
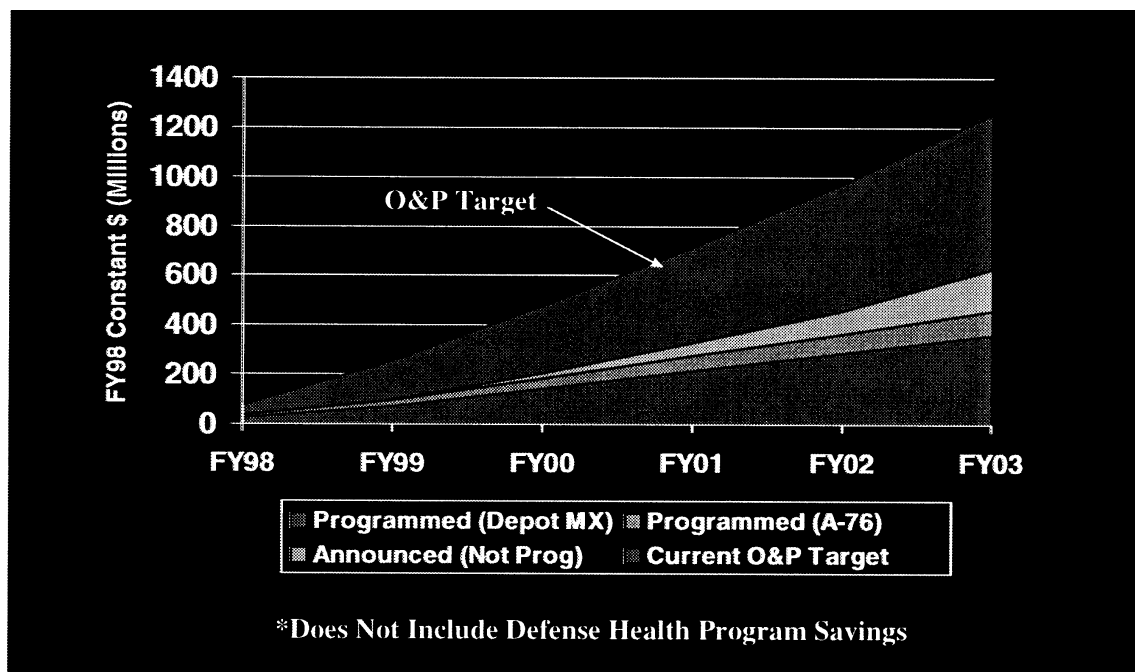


Figure A1.4. Cumulative O&P Savings\*.



## Attachment 2

### GLOSSARY OF ABBREVIATIONS, ACRONYMS, AND TERMS

#### *Abbreviations and Acronyms*

**DoD**—Department of Defense

**FTE**—Full-Time Equivalent

**MAJCOM**—Major Command

**MEO**—Most Efficient and Cost Effective In-House Organization

**OPR**—Office Of Primary Responsibility

**O&P**—Outsourcing and Privatization

#### *Terms*

**Commercial Activity (CA)**—An Air Force function that provides a recurring service obtainable from a commercial source. It may be an entire organization or a part of an organization. The type of work must be separable from other functions or activities so that it is suitable for outsourcing. An Air Force CA falls into one of two categories:

In-house CA - operated by Air Force military or civilian personnel (or a combination).

Outsourced CA - performed under a service contract by the private sector or another element of the public sector.

**Core Mission Central**—most important and definitive mission linked to an organization's most critical competencies.

**Full-Time Equivalent (FTE)**—The planned use of 2087 straight time paid hours in a fiscal year (to include authorized leave, training, and administrative time away from the job site). For example, in the case of full-time employees with permanent appointments, "one FTE" is normally comparable to "one employee." However, two part-time employees, each working 500 straight time paid hours in a fiscal year, equal "0.48 FTE."

**Inherently Governmental Function**—A function so intimately related to the public interest that it mandates performance by Department of Defense personnel (military or civilian). These functions are defined in the Office of Federal Procurement Policy (OFPP) 92-01, *Inherently Governmental Functions* and implemented in AFMAN 38-209, *Air Force Commercial Activities Program Procedures* (when issued) and Federal Acquisition Regulation (FAR) Part 7.

**Most Efficient and Cost Effective In-House Organization**—The organizational structure and resources which best meet the performance requirements of the performance work statement while using minimal amount of resources.

**Military-Essential Function**—A function which must be performed by a uniformed member of the Air Force rather than a Federal civilian employee or a private sector civilian contractor. These functions are defined in AFI 38-204, *Manpower and Organization: Programming USAF Manpower*, and are being further refined through the establishment of a minimum essential military threshold (MEMT) for the Air Force.

**Outsourcing**—The sourcing of a new requirement or transfer of an activity that has been performed in-house to an outside provider. The Air Force retains full control and responsibility (through service contracts) of the recurring services or functions which are outsourced.

**Privatization**—The transfer of ownership of function(s), business assets or both (e.g., government-owned plant and equipment) from the public to the private sector. (For a new activity or infrastructure requirement, privatization would still apply with the designation of private sector ownership of the activity and the associated infrastructure.)

**Strategic Sourcing**—The cornerstone of the Air Force approach to outsourcing and privatization. Overall, strategic sourcing seeks to balance military effectiveness (the ability to fight and win) with the incorporation, where possible, of increased efficiencies from best business practices. The selection of the optimum source and process is central to strategic sourcing and should result in improved performance, efficiency, quality, cost effectiveness, and savings for modernization, quality of life, or other Air Force priorities. Strategic sourcing is not limited to commercial activities, but also includes inherently governmental and military essential functions. When internal sources are required, strategic sourcing ensures that mission performance requirements are met or exceeded in the most cost-effective way. When an external source is available, strategic sourcing facilitates the identification of the best way to either compete with private or public sector suppliers to achieve performance and cost advantages, or to directly outsource or privatize the function under existing policies, procedures, and statutes.



### Attachment 3

#### IMPLEMENTING DIRECTIVES AND INTERFACING DOCUMENTS

**A3.1.** This policy directive implements the Outsourcing and Privatization (O&P) Program. The following documents interface directly with O&P:

Executive Order No. 11246, September 28, 1965, 30 F.R. 12319/*Equal Employment Opportunity* (amendments: No. 11375, October 17, 1967, 32 F.R. 14303; No. 11478, August 12, 1969, 34 F.R. 12985; and, No. 11590, April 27, 1971, 36 F.R. 7831)

OMB Circular A-76, *Performance of Commercial Activities*, August 4, 1983

OMB Circular No. A-76, Revised Supplemental Handbook, *Performance of Commercial Activities*, March 1996

Federal Acquisition Regulation (FAR), as Supplemented, 1990

DoD Directive 4100.15, *Commercial Activities Program*, March 10, 1989

DoD Instruction 4100.22, *Commercial Activities Program Procedures*, September 9, 1985, with changes 1-3

DoD Directive 5100.73, *Department of Defense Management Headquarters Support Activities*, November 12, 1996

**A3.2.** The following policy directives and instructions interface with strategic sourcing policy:

AFPD 20-1, *Logistics Strategic Planning*

AFPD 23-2, *Supplies and Materiel Management*

AFPD 23-4, *Supply Management Business Area of Defense*

AFPD 36-1, *General Civilian Personnel Provisions and Authorities*

AFPD 38-2, *Manpower*

AFPD 63-1, *Acquisition System*

AFPD 63-3, *Competition Advocacy*

AFPD 63-6, *Industrial Based Planning*

AFPD 63-7, *Industrial Base Facilities*

AFPD 63-8, *Value Engineering*

AFPD 64-1, *The Contracting System*

AFPD 64-2, *Small Business Program*

AFPD 65-5, *Cost and Economics*

AFPD 90-4, *Relations With Congress*

AFPD 90-5, *Quality Air Force*

AFI 20-101, *Logistics Strategic Planning Procedures*

AFI 21-102, *Depot Maintenance Management*  
AFI 21-101, *Maintenance Management of Aircraft*  
AFI 21-107, *Maintaining Commercial Derivative Aircraft*  
AFI 21-108, *Maintenance Management of Space Systems*  
AFI 21-403, *Acquiring Engineering Data*  
AFI 23-103, *Determining Materiel Requirements for the Air Force Consumable Items*  
AFI 23-205, *Managing the Procurement Materiel Program*  
AFI 38-203, *Commercial Activities Program*  
AFI 38-204, *Air Force Manpower Programming*  
AFI 38-205, *Wartime Manpower Planning and Programming*  
AFI 38-601 (when issued), *Outsourcing and Privatization Program*  
AFI 63-107, *Integrated Weapon System Management Program Planning and Assessment*  
AFI 63-301, *Air Force Competition Advocacy*  
AFI 63-602, *Defense Production Act Title I -- Defense Priorities and Allocation Systems*  
AFI 63-603, *Defense Production Act III Program*  
AFI 63-701, *Managing Industrial Facilities*  
AFI 64-201, *Small Business Program*  
AFI 65-501, *Economic Analysis*  
AFI 65-503, *US Air Force Cost and Planning Factors*  
AFI 65-504, *Independent Review of Commercial Activity Cost Comparisons*  
AFI 90-401, *Air Force Relations With Congress*  
AFMAN 38-208, *Air Force Manpower and Organization, Vols. I and II*  
AFMAN 38-209 (when issued), *Air Force Commercial Activities Program Procedures*  
AFP 26-12 (pending issuance of AFMAN 38-209), *Air Force Manpower and Organization: Guidelines for Implementing the Air Force Commercial Activities Program*  
AFMAN 64-108, *Service Contracting*

## **Attachment 4**

### **AIR FORCE OUTSOURCING AND PRIVATIZATION STRATEGIC PLAN**

#### **Introduction**

The purpose of this strategic plan is to communicate the Air Force vision, purpose, goals, and major challenges for the Outsourcing & Privatization (O&P) Program.

To accomplish its mission, the Air Force has always sought balance and synergy within and among the components [active duty, Air National Guard (ANG), Air Force Reserve Command (AFRC)] and the categories of employees (military, civilian or contract). Now, through O&P, the Air Force is making a broader corporate commitment to mirror private sector business approaches and increase competition for an optimum mix of Defense, public, and private sector support elements.

Significant politico-economic and military events over the last few years have led to an increased emphasis on O&P as tools to meet national security objectives. Current considerations critical to the development of O&P include the following:

- As a steward of the Public trust, the Air Force must ensure effective and efficient resource use.
- Air Force modernization accounts require additional funds to pay for technological and scientific advances to enhance mission capability.
- The Air Force must act now to identify and implement smart ways to meet all its mission requirements.
- The Air Force encourages efficiency initiatives over and above the O&P efforts: capture the savings associated with ongoing and future initiatives, and redistribute the savings.

The O&P Program reflects, among other things, the Air Force's desire to generate greater cost savings to apply toward force structure modernization. Concurrently, it seeks to improve performance by tapping, whenever appropriate, world-class technologies and expertise in the private sector and other parts of the public sector. Along with permitting increased flexibility for outsourcing, new legislation is also opening the door for more extensive use of privatization. Whereas housing is the initial focus of the privatization legislation, an optimum use of privatization over the longer term will lead to major changes in the way the Air Force plans, develops, and maintains installations.

#### **Leadership Advocacy**

Air Force leadership across the spectrum must be engaged in and fully support O&P to ensure it is aggressively promoted on a consistent basis at all levels within the Air Force. Substantial changes in organizations, processes, capital investments, and technologies are intrinsic to successful O&P, necessitating its high priority on the corporate Air Force agenda.

#### **Key Definitions**

Strategic Sourcing is the cornerstone of the Air Force approach to outsourcing and privatization. Overall, strategic sourcing seeks to balance military effectiveness (the ability to fight and win) with the incorporation, where possible, of increased efficiencies from best business practices. The selection of the optimum source and process is central to strategic sourcing and should result in improved performance, efficiency, quality, cost effectiveness and savings for modernization, quality of life or other Air Force priorities. Strategic sourcing is not limited to commercial activities, but also includes inherently governmental and military-essential functions. When internal sources are required, strategic sourcing ensures that mission

performance requirements are met or exceeded in the most cost-effective way. When an external source is available, strategic sourcing facilitates the identification of the best way to either compete with private or public sector suppliers to achieve performance and cost advantages, or to directly outsource or privatize the function under existing policies, procedures, and statutes.

Outsourcing is the sourcing of a new requirement or transfer of an activity that has been performed in-house to an outside provider. The Air Force retains full control and responsibility (through service contracts) of the recurring services which are outsourced.

Privatization is the transfer of ownership of function(s), business assets, or both (e.g., government-owned plant and equipment) from the public to the private sector. (For a new activity or infrastructure requirement, privatization would still apply with the designation of private sector ownership of the activity and the associated infrastructure.)

## **Strategic Vision, Mission, Goals. and Overarching Principles**

### **Vision**

An Air and Space Force whose premier warfighting capability and corporate culture are inextricably linked to the optimum use of national resources.

### **Mission**

To institutionalize the Air Force's optimum use of public and private resources by selecting the best source, either internal or external, to meet Air Force requirements.

### **Goals**

*Sustain readiness.* A key goal of O&P is to ensure high levels of readiness and mission capability are sustained across the Air Force by the most efficient and cost-effective services available, whether they are performed in-house or by the private sector, even if they are inherently governmental or military essential.

*Improve the performance, quality, efficiency, and cost effectiveness of Air Force activities.* Strategic sourcing expands the network of available suppliers to increase the Air Force's access to services that are "best in class".

*Generate savings for modernization* by pursuing cost-effective solutions to save the Air Force money and time while simultaneously ensuring adequate resources are allocated to maintain installations. The major "driver" for the overall O&P Program is the need to save substantial amounts of money by doing business more efficiently and cost effectively -- regardless of whether activities are outsourced, privatized, or retained in-house.

*Focus personnel and resources on core activities.* Strategic sourcing will facilitate increased Air Force management focus on core activities while capitalizing on other public and private sector expertise, investment, and capability. Core activities may vary by MAJCOM, and the determination of what constitutes "core" activities can change over time.

### **Overarching Principles**

The major principles which govern strategic source selection, considered within the overall framework of legislation dealing with Air Force activities and infrastructure, include the following:

*New budget and business climates* dictate that the Air Force concentrate more of its direct attention and overall shrinking resources on supporting core Air Force activities.

*Military-essential functions*, which must be performed by a uniformed Air Force member rather than a Federal employee or a civilian contractor, are defined in AFMAN 38-204 (when issued) and are being further refined through the establishment of a minimum essential military threshold (MEMT) for the Air Force.

*Inherently governmental functions*, so intimately related to the public interest that they mandate performance by Department of Defense personnel (military or civilian), are defined in AFMAN 38-209, *Air Force Commercial Activities Program Procedures* (when issued) and Federal Acquisition Regulation (FAR) Part 7, which implement Office of Procurement Policy (OFPP) 92-01, *Inherently Governmental Functions*.”

## **Major Challenges**

*Develop a Consistent Strategic Sourcing Approach.* The Air Force must develop, market, and institutionalize a consistent strategic sourcing approach to be implemented Air Force-wide. Such an approach should facilitate the ability to aggressively pursue the savings that are available from O&P.

*Cultivate a Business Culture in the Air Force.* The Air Force must promote a “business perspective” to execute O&P comprehensively. By exploiting industry involvement to the maximum extent possible, the program will increase its chances of success, credibility, and acceptance.

*Adapt the Air Force Organizational Structure.* The need for standardized operational structure must be balanced with the need for organizational flexibility to achieve strategic sourcing. In other words, the Air Force needs to be flexible enough in its organizational setup to facilitate reengineering, reorganization, and outsourcing in order to accomplish strategic sourcing.

*Determine the Actual Cost of Doing Business.* The existing obligation-budget driven financial systems do not provide an accurate picture of the total cost of doing business. The Air Force needs to develop a methodology to extract data hidden within current systems to track the cost of doing business, thereby promoting sound business decisions.

*Apply New Air Force Acquisition Practices to O&P.* Given the expected time and monetary savings linked to new approaches to service contracts, acquisition streamlining procedures or reform must be aggressively applied Air Force-wide for optimum O&P. In addition, the importance of small and disadvantaged businesses must continue to be factored into an environment increasingly promoting contract consolidation when it makes good business sense.

*Address Unique Requirements in Overseas Areas.* When planning for and executing an O&P initiative in an overseas area, the Air Force must adhere to the requirements and restrictions imposed by treaty, host nation law, and/or labor agreement, and consider the impact of such an initiative in light of the political climate and the labor relations environment.

*Be Proactive About Human Resource Issues.* O&P must address the needs of personnel impacted by O&P decisions with foresight, fairness, and in the context of personnel procedures for implementing downsizing. Additionally, contracts, service agreements, etc., must contain appropriate language regarding Equal Employment Opportunity (EEO) Law, prescribed by Executive Order 11246, September 28, 1965 and ensure the Right of First Refusal, when appropriate.

*Keep Federal Labor Unions Abreast of O&P Developments.* When Federal civilians will be impacted by a strategic sourcing initiative, the Air Force will consult with those employees during the cost comparison process in the manner prescribed by 10 U.S.C. Section 2467 and, for those employees represented by

labor organizations, will consult with their representative labor organizations unions and complete all bargaining obligations.

*Promote Congressional Support for O&P.* O&P will impact Federal employees in many Congressional districts. The Air Force must ensure the Congress is fully informed on how strategic sourcing is in the best interests of national defense and the taxpayer.

## **Conclusion**

Because future capabilities of the Air Force depend so strongly on the success of O&P, vigorous senior leadership involvement at all echelons of command and at all phases of this critical program is imperative.